EB-2018-0287/0288

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998, S.O. 1988, c. 15, Schedule B*

AND IN THE MATTER OF a consultation regarding utility renumeration and responding to distributed energy resources

Written Comments on Board Staff Report

ONTARIO SUSTAINABLE ENERGY ASSOCIATION

March 27, 2020

Introduction

OSEA is a leading non-profit association representing a wide range of professional organizations engaged in shifting Ontario's energy sector to one of ecological and economic sustainability.

We wish to applaud OEB Board Staff for a well-facilitated stakeholder consultation and for its inclusive approach. Although early in implementation, we believe that there has been so far a careful consideration and balance of divergent opinions.

The following comments reflect the areas where OSEA most strongly agrees with or where we believe an alternative approach should be considered.

Guiding Principles

OSEA generally supports the guiding principles put forward by Board Staff, highlighting Consumer Focus as a key defining principle. We strongly agree that this means *enabling* consumers as well as *protecting* consumers, through a light-handed regulatory approach that removes regulatory barriers and lets markets, technology & customers evolve.

OSEA believes, however, that the OEB must be more definitive under the principle Stable yet Evolving Sector, in order to enable and support change: The statement "It neither precludes alternative business models that may be desirable nor impedes the entry of new entities[1]" leaves an impression of a " do minimal approach" that we are sure is not the intent of the OEB. OSEA believes that there is a role for the OEB to actively encourage utility business models that send appropriate investment and market signals through rate design and regulatory mechanisms.

We also believe that the principle of Economic Efficiency and Performance needs to recognize the importance of network resiliency which, while complementary to safety and reliability, is a distinct concept. OSEA understands that there are a number of accepted definitions for resiliency, but in all of them, the definition recognizes the need for the grid to be able to withstand grid stress events without suffering operational compromise or to adapt to the strain so as to minimize compromise…."[2] With increasing volatile weather events and other climate risks, micro-grids and other DER's can add resiliency by helping to protect and / or add redundancy to communities, including remote, northern and more vulnerable areas.

Role & Approach

OSEA encourages the OEB to take proactive steps to adapt the regulatory framework to address areas of change where fundamental assumptions are no longer relevant to the

[1] Staff Presentation, page 14.
[2] https://gridarchitecture.pnnl.gov/media/advanced/Electric_Grid_Resilience_and_Reliability.pdf

underlying utility models.[3] We believe a regulatory model that as a foundation compensates transmission and distribution companies based on a return on equity on rate base will continue to ensure a bias on investment in hard wires and pipe assets and not provide the right incentives to utilities to consider alternatives.

Need for Action

OSEA supports the recognized need for utilities to consider all viable and practicable options to meet a defined network need, including the full range of distributed resources including energy efficiency, demand response, renewables and storage. In many cases, Non-Wires and Non-Pipe Solutions (NWS/NPS) are less capital intensive than pipes and wires, maximizing customer value and cost effectiveness. A coordinated planning approach with impacted communities can better prioritize localized resources and encourage community choice.

However, despite numerous efforts to encourage integrated resource planning (IRP), the IRP process and its outcomes are still left very much to the discretion of utilities, particularly in the level of emphasis and scrutiny placed on NWS/NPS We believe that NWS/NPS represent an area where meaningful DERS could be encouraged to meet a specific transmission & distribution need for grid services, extending the life of existing assets, while maximizing benefits to ratepayers and consumers.

We encourage the OEB to require utilities to establish clear planning & system control processes that integrate with IRP and includes standards/service levels on information sharing to inform third parties where DER's would be most beneficial to the network systems. At the same time, the OEB should set the expectation that utilities adopt DER's where they are most cost effective and practicable. There is a complementary need to look at utility renumeration to ensure that rates and incentives are appropriately set and the right investment signals are sent to third party developers of DER's.

Objectives

OSEA supports Board Staff's objectives with the following modifications:

Overarching:

•Strengthened utility focus on cost effectiveness and providing value for energy consumers as the sector evolves.

[3] Page 22 of the Staff Report provides the following example of assumptions that are no longer relevant: "…e.g. you cannot store electricity, generation is always large scale and centralized, load will always grow, demand is passive."

•Consumers continue to be appropriately protected as markets for energy services evolve and customer choice enabled; customer choice does not negatively impact others.

•Responding to DERs:
•Full value and costs of DER's are reflected to promote adoption and integration in a way that maximizes overall value to energy consumers, while ensuring overall safety, reliability and resiliency of the system.

•Utility infrastructure is optimally utilized as DER adoption grows; underutilized and stranded assets are minimized

•Utility Remuneration:
•Utility incentives are effective at encouraging greater efficiencies and cost-effectiveness

•Utilities will implement the most cost effective and practicable options for delivering utility services and will explicitly consider all Non Wires/Pipe Solutions.

Valuation of DER's in Rates Not In Scope

OSEA has the following comments regarding the proposed scope of the Stakeholder Consultations.

We agree that an important first step is to identify a common framework that assesses the full benefit and costs of DERS, including their locational and temporal value. We are not sure, however, that this can be completed without a thorough review of rate design to ensure rates appropriately values DER costs and benefits**.** Specifically, the scope of the rate proceedings referenced in the Staff Report, Distribution Rate Design and RPP review[4], do not include In scope consideration of DER valuation. At the very least, the scope of these reviews should be expanded to include consideration of DER benefits, including the value of grid services provided to avoid upstream generation, transmission & distribution as well as ancillary services.

OSEA believes that New York's Value of Distributed Energy Resources (VDER) rates are a best practice that the OEB should review in evaluating a Made-in-Ontario approach to value DER's. VDER has demonstrated that it is has been successful in sending the right signal to smaller (< 5 MW) DER's in NY while still requiring developers to pay the full cost of interconnection. In summary, achieving the rate design right is essential to enabling markets and competition reducing any barriers.

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[4] **Distribution Rate Design:**
To improve the link between rates and cost drivers ensuring customers pay for their service commensurate with the value of the distribution system
"Smarter" Electricity Prices:
To consider RPP reforms that provide more appropriate price signals to low-volume and other Class B electricity consumers, including alternative price designs for recovery of Global Adjustment from Class B consumers

Similarly, the focus on utility incentives should improve alignment between performance outcomes and earnings, rather than the current model that provides a disproportionate incentive for utilities to drive earnings through increased rate base investment. Financial viability of the sector should reward performance and outcomes and also be flexible to address the evolving roles/responsibilities, including Distribution System Operator (DSO) functions and coordination with Transmission System Operator (TSO) functions, This review should also balance utility desire to own DER's to provide grid services with a thorough review of ARC to mitigate any conflicts of interest and unfair advantages that may be provided to affiliates in owning DER's.

Conclusion

OSEA wishes to thank the Board for the opportunity to provide these comments on this important Consultation: distributed energy resources have the potential to shift Ontario's energy economy to a more sustainable and cost-effective basis, while enhancing reliability and resiliency. It will require, however, a clear vision from the OEB, coupled with a light-handed regulatory approach that removes regulatory barriers and lets markets, technology & customers evolve appropriately.